



P.O. Box 2749  
Sacramento, CA 94229-2749  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-3400

December 13, 2010

### **AGENDA ITEM 3a**

#### **TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Revision of Policy on Barclays Aggregate Program
- II. PROGRAM:** Global Fixed Income
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Barclays Aggregate Program
- IV. ANALYSIS:**

In the last decade, the bond market has experienced two events which have created an unusual amount of volatility for actively managed fixed income portfolios. This volatility caused Staff to reconsider and pose the question to the Investment Committee (IC) regarding the role of Fixed Income for CalPERS. After discussions with the IC, the Asset Allocation Unit, and the CIO, it was decided that a change in the role of fixed income portfolios was required given CalPERS reduced liquidity, higher equity exposure, and a desire for less volatility in relative returns. The fixed income group proposed reducing the targeted alpha and risk by 50 percent. Therefore, the Statement of Investment Policy for the Global Fixed Income Program was revised through a reduction in ranges and flexibility of active management parameters effective September 13, 2010.

The Statement of Investment Policy for Barclays Aggregate Program (Attachment 1) covers the internal actively managed fixed income portfolio managed against the Barclays Aggregate Index. In order to reduce risk and maintain consistency among the different fixed income policies, Staff is proposing similar reductions in ranges and flexibility of active management parameters for the Barclays Aggregate Program's Policy as were made for the Statement of Investment Policy for the Global Fixed Income Program.

Wilshire Associates' opinion letter is Attachment 2.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

There are no costs associated with this item.

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CURTIS D. ISHII  
Senior Investment Officer  
Global Fixed Income

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JANINE GUILLOT  
Chief Operating Investment Officer

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JOSEPH A. DEAR  
Chief Investment Officer